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In the

Supreme Court of the United States

October Term, 1986

MEDICAL INCORPORATED,

Petitioner,

vs.

THE REGENTS OF THE UNIVERSITY OF MINNESOTA,

Respondent.

On Petition for a Writ of Certiorari to the Minnesota Court of Appeals

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED

1. Whether this Court should grant a petition for a writ of certiorari to review a determination by a state court that assignment of an improvement patent to the licensor under a grant-back provision in a license agreement is not per se patent misuse, where the state appellate court has remanded the question of the assignment of the improvement patent under the license agreement and the remanded question has not been finally adjudicated by the state court system.

2. Whether this Court should grant a petition for a writ of certiorari to review the adequacy of a state court's factual determination that a patent licensee failed to establish that the licensor conditioned the grant of a patent license upon inclusion of a total-sales clause and thus failed to establish its defense of patent misuse.

3. Whether this Court should grant a petition for a writ of certiorari to review a state court determination that collateral estoppel should not apply to findings that were ~~not~~ neither essential to prior federal litigation ~~or~~ nor identical to the issues presented by the state court litigation.

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BRIEF IN OPPOSITION

STATEMENT OF THE CASE

On October 19, 1971, Medical Incorporated ("Medical") and the Regents of the University of Minnesota ("University") entered into a license agreement by which Medical as licensee received the right to manufacture and sell heart valves invented at the

University, including a heart valve known as the Lillehei-Kaster ("L-K") heart valve, invented by Robert Kaster and covered by U.S. Patent No. 3,476,143 issued on November 4, 1969 which was assigned to the University. Pl. Exh. 45. Medical was created specifically to sell heart valves under the license agreement and therefore agreed to pay the University royalties of five percent of the retail sales price for all heart valves that it made and sold. From its creation until today all of its heart valve sales and over ninety percent of Medical's total sales have been heart valves of the type originally invented at the University. The license agreement also included a "grant-back" clause under which Medical was required to assign to the University, and be licensed under, any improvement inventions to the Kaster patent that it developed.

On November 20, 1975, Medical and the University entered into an amendment to the license agreement. Pl. Exh. 67. The license and amendment (collectively refered to as "license agreement") specifically required Medical to pay royalties on the L-K heart valve and on two additional valves, the OmniScience ("OS") and Omnicarbon ("OC"). (The three heart valves manufactured and sold by Medical at issue in this case shall collectively be referred to as the "Medical valves.")

Despite having sold over $60,000,000 worth of heart valves, Medical has never paid any royalties to the University under the license agreement. Consequently, the University sued Medical for breach of contract, seeking royalties and assignment of an improvement patent (the "Huffstutler patent") Medical had obtained, but had

not assigned, to the University, as required by the grant-back clause.

The seven-week jury trial focused on three related matters: first, whether the license agreement providing for royalties on "each and every heart valve" expressed the intention of the parties that Medical pay royalties on all heart valves it manufactured whether or not a particular valve was covered by the Kaster patent; second, whether the Kaster patent claims covered the Medical valves; and third, whether the Huffstutler patent was an improvement patent on the Kaster patent.[1/] The jury found in favor of the University on all of these issues. Verdict, ¶ 1, 3, 5 and 6.

1/ An unrelated fourth issue concerned Medical's claim that the University had breached an agreement not to sue Medical. The jury rejected this counterclaim.

Medical's assertion in its Statement of the Case, Pet. at 7, that its defense of patent misuse -- premised on the inclusion of a total sales provision and assignment clause in the license agreement -- was a central issue at trial is not supported by the record. Despite the fact that patent misuse is an affirmative defense, with the party asserting it having the burden of proof, Bio-Rad Laboratories, Inc. v. Nicolet Instrument Corp., 739 F.2d 604, 615 (Fed. Cir.), cert. denied, ____ U.S. ___, 105 S. Ct. 516 (1984), Medical offered no credible evidence relating to this issue and neither sought a jury instruction or a question in the special verdict on the defense of patent misuse. See Opinion of the Minnesota Court of Appeals, Pet. App. at A-44. Medical took the factual position at trial that the license agreement was narrow in scope. When it

lost that issue in the jury verdict, it sought to argue misuse on appeal. Because there were no trial court findings on the issue, the Court of Appeals, under Minn. R. Civ. P. 49.01(1), had to imply findings consistent with the verdict. Id. Because the misuse issues have been an important feature of this case only at the appellate stage, this case would present a particularly poor record for this Court's review by writ of certiorari.

On appeal, the Minnesota Court of Appeals found evidence to support an implied finding that the total sales provision was not "conditioned" so as to constitute patent misuse. Pet. App. at A-47. On the issue of the assignment of the Huffstutler patent, the Court of Appeals noted that in Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947) ("Trans-Wrap"), this

Court held that grant-back clauses in licensing agreements are not per se illegal. Pet. App. at A-48. The Court then found that, on the record before it, it could not imply findings as to whether assignment of the Huffstutler patent would substantially extend the scope of the Kaster patent and, therefore, remanded this issue to the trial court for a technical comparison of the two patents. The University disagreed with the Court of Appeal's remand of an issue on which Medical had borne -- and grossly failed to meet -- the burden of proof at trial. The Court of Appeals, however, remanded this issue, and, on September 2, 1986, after this Petition for Certiorari, the trial court issued its opinion on the remanded issue. It found that the claims of the Kaster patent covered the claims of the Huffstutler patent and that assignment of the Huffstutler patent to

the University would not substantially extend the scope of the Kaster claims.[2/] The trial court's findings on the technical comparison are, of course, subject to the normal course of appeal in the state court system. The time during which Medical may file a timely appeal to the Minnesota Court of Appeals has not yet elapsed.

The University also disagrees with Medical's characterization in its Statement of the Case of the scope and preclusive effect of prior ligigation brought by Medical and the University, seeking to prove that the Bjork-Shiley

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2/ If the licensed patent covers the claims of the improvement patent, such substantial extension as concerned the Court in Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648, 700 (D. S.C. 1977), aff'd in part and rev'd in part, 594 F.2d 979 (4th Cir. 1979), cert. denied sub nom. Ateliers Roannois de Constructions Textiles v. Duplan, 444 U.S. 1015 (1980), cannot exist.

heart valve infringed the Kaster patent. See Washington Scientific Industries, Inc., et al. v. Shiley Laboratories, Inc., 187 U.S.P.Q. 236 (C.D. Cal. 1975) ("Shiley"). Discussion of those disagreements, however, will be reserved for this Brief's discussion of the collateral estoppel issue.

SUMMARY OF THE ARGUMENT

Medical's Petition for a Writ of Certiorari should be denied for three reasons.

First, Medical's Petition is untimely because it was not filed within ninety days of the final judgment of the Minnesota Supreme Court. On April 18, 1986, the Minnesota Supreme Court rendered its final judgment, denying both Medical's petition for review and the University's conditional petition for review of a decision of the Court of

Appeals. Under Rule 20.4 of the Rules of the Supreme Court and American Railway Express Company v. Levee, 263 U.S. 19 (1923), the ninety-day period for filing a petition for a writ of certiorari expired on July 17, 1986. Medical's Petition, filed August 18, 1986, therefore was untimely.

Second, the decision of the Minnesota Court of Appeals is not a final judgment and, therefore, is not reviewable. The Minnesota Court of Appeals remanded to the trial court the factual question whether the assignment of the Huffstutler patent under the grant-back clause of the license agreement substantially extends the scope of the Kaster patent. The decision of the Court of Appeals, therefore, is clearly not final and, moreover, satisfies neither the ministerial act exception of Pope v. Atlantic Coast Line

R. Co., 345 U.S. 379, 382 (1953), nor the four finality exceptions for cases requiring further proceedings outlined in Cox Broadcasting Corp. v. Cohn, 420 U.S. 469, 479-85 (1975).

Third, the decision of the Minnesota Court of Appeals neither conflicts with the decisions of federal or other state high courts nor violates the Supremacy Clause of the United States Constitution. Contrary to Medical's assertion, the Court of Appeal's decision concerning grant-back provisions is not in conflict with Brulotte v. Thys Co., 379 U.S. 29 (1964). The Court of Appeals, relying on this Court's decision in Trans-Wrap, stated that grant-back clauses are not per se illegal and remanded the question whether assignment of the Huffstutler patent under the grant-back clause would substantially expand the scope of the Kaster patent.

Brulotte condemned patent licensing provisions that require the payment of royalties beyond the expiration of the licensed patent because such provisions extend the duration of the patent monopoly. Grant-back clauses, by contrast, exact royalties only on valid patents and do not extend the duration of the licensed patent.

Medical's attack on the Court of Appeals' application of Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969), is based simply on a sufficiency of the evidence argument. Zenith Radio held that conditioning of the grant of a patent license on the payment of royalties on unpatented products is patent misuse. In the instant case, the jury found that all of Medical's valves were covered by the Kaster patent. Moreover, the evidence showed that Medical first proposed the

provisions which it now attacks and amply supported a finding of no conditioning.

Finally, the Court of Appeals' refusal to apply a previous federal court decision to collaterally estop the University from arguing that the Kaster patent covered Medical's valves did not violate the Supremacy Clause for two reasons. The two Shiley findings on the scope of the Kaster patent that Medical argues preclude the University from establishing that the Kaster patent covers Medical's valves were not essential to the Shiley holding. Further, the issues in the Shiley litigation and this case lack identity because Medical's valves do not differ from the Kaster patent in the same way as did the accused infringing device in Shiley. For these reasons the Court of Appeals properly refused to apply collateral estoppel.

REASONS FOR DENYING THE WRIT

Medical's Petition for a Writ of Certiorari should be denied for three reasons. First, Medical failed to submit a timely petition to this Court. Second, Medical seeks review of a decision as to which a non-ministerial remanded issue has yet to be resolved by the highest state court from which judgment can be had. Third, the Minnesota Court of Appeals's decision is not in conflict with the decisions of this or other federal courts, and it does not violate the Supremacy Clause.

I. MEDICAL'S PETITION FOR A WRIT OF CERTIORARI SHOULD BE DENIED BECAUSE IT IS UNTIMELY.

Rule 20.4 of the Rules of the Supreme Court of the United States provides:

> The time for filing a petition for writ of certiorari runs from the date the judgment or decree sought to be reviewed is rendered, and not from the date

> of the issuance of the mandate (or its equivalent under local practice).

In this case, the Minnesota Court of Appeals filed its decision on February 11, 1986. Medical filed a petition for review to the Minnesota Supreme Court and the University filed a conditional petition for review. Both were denied by Order of the Minnesota Supreme Court on April 18, 1986. At this point, Minnesota's highest state court had rendered its judgment, denying a request for discretionary review, and Medical had its final judgment from the highest court in the state from which it could obtain a judgment. This Court previously stated in American Railway Express Company v. Levee, 263 U.S. 19 (1923), that where a state court system has an intermediate appellate court that hears appeals as of right and a supreme court that hears appeals on a

discretionary basis, "the limit of time for applying to this Court was from the date when the writ of certiorari was refused [by the Louisiana Supreme Court]." 263 U.S. at 21. As the parties' petitions for review were denied on April 18, the ninety-day period in which to submit a petition for a writ of certiorari expired on July 17, and, therefore, Medical's Petition, filed on August 19, is not timely.[3/]

3/ Medical apparently believes that it could file its petition ninety days from the entry of the judgment of the Minnesota Court of Appeals, which occurred on May 22, 1986. This view is inconsistent with the language of Supreme Court Rule 20.4 and American Railway Express. Further, it would be unfair to the University to allow Medical to calculate its ninety days from May 22. Minn. R. App. P. 136.02 provides that, while the filing of a petition for review with the Minnesota Supreme Court will stay entry of judgment of the decision of the Court of Appeals, a judgment "shall be entered immediately upon the denial of a petition for review . . . ." After the denial of its petition for review, however, Medical brought a motion before the Court of Appeals to

II. THE DECISION OF THE MINNESOTA COURT OF APPEALS IS NOT REVIEWABLE BY WRIT OF CERTIORARI BECAUSE THAT DECISION IS NOT A FINAL JUDGMENT.

Medical virtually concedes that the basic jurisdictional prerequisite of 28 U.S.C. § 1257 -- a final judgment or decree on the federal question by the highest state court from which a judgment or decree could be had -- is not satisfied in the instant case.[4/] Pet. at 11-13.

3/ (Footnote Continued)

stay further proceedings in the trial court pending the resolution of its petition to this Court. This motion was denied on May 21, and the judgment from the February 11 Opinion of the Court of Appeals was entered on May 22. Medical should not be permitted to use its own motion to stay further proceedings in the trial court to extend its period to file a petition for a writ of certiorari with this court by 34 days.

4/ Section 1257 provides in part: "Final judgments or decrees rendered by the highest court of a State in which a decision could be had, may be reviewed by the Supreme Court as follows: . . . (3) By writ of certiorari. . . ." 28 U.S.C. § 1257 (1982).

Medical apparently seeks a determination from this Court that a grant-back provision requiring the licensee to assign an improvement patent to the licensor is per se illegal. If the Court granted Medical's Petition for a Writ at this time, it would have to decide this issue in a factual void because the question of whether defendant submitted sufficient evidence to prove that the assignment of the Huffstutler patent substantially extends the scope of the Kaster patent has not been finally determined by the Minnesota state courts. This Court has traditionally denied certiorari where the factual, and therefore the legal, issues have not been finally decided in the lower courts. See, e.g., Brotherhood of Locomotive Firemen v. Bangor & Aroostook R.R., 389 U.S. 327, 328 (1967) ("[B]ecause the Court of Appeals has remanded the case,

it is not yet ripe for review by this Court.")

Moreover, Medical concedes that this case does not satisfy any of the judically created exceptions to the finality rule for cases involving further proceedings. Pet. at 11-13. It admits that the determination of the remanded issues requires more than a ministerial act, Pet. at 11-12, and, therefore, that this case does not satisfy the ministerial act exception of Pope v. Atlantic Coast Line R. Co., 345 U.S. at 382. Medical further virtually admits that this case does not fit any of the four finality exceptions for cases involving further proceedings outlined in Cox Broadcasting Corp. v. Cohn, 420 U.S. at 479-85. Pet. at 12-13. Therefore, Medical's petition should be denied because this case is not finally decided by the lower courts.

III. THE OPINION OF THE MINNESOTA COURT OF APPEALS DOES NOT CONFLICT WITH FEDERAL AUTHORITIES AND DOES NOT VIOLATE THE SUPREMACY CLAUSE OF THE UNITED STATES CONSTITUTION.

A. The Court of Appeals' Statement that Grant-Back Provisions Are Not Per Se Illegal Is Not in Conflict with the Decisions of this Court.

The license agreement in this case has grant-back clauses requiring the University, in some situations, to license new technology to Medical and requiring Medical to grant back improvement patents to the University. Medical challenges this latter provision. As Medical stated in its Brief to the Minnesota Court of Appeals, however, this Court's decision in Trans-Wrap held "that a grant-back requirement in a patent license which required the licensee to assign back title to improvement inventions was not illegal per se." Appellants' Brief dated July 19, 1985, at 32. The Court of

Appeals cited this language from Trans-Wrap, Pet. App. at A-48, and then remanded to the trial court the question of whether, in this case, the University should be assigned the Huffstutler patent or whether to do so would substantially extend the scope of the Kaster monopoly. (As discussed above, the assignment of the Huffstutler patent issue has not been finally resolved by the Minnesota courts).

Medical cites no federal authority that contradicts the disposition of this issue by the Court of Appeals.[5/] Medical itself has at all

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5/ Perbal v. Dazor Manufacturing Corp., 436 S.W.2d 677 (Mo. 1968), cited by Medical for the proposition that grant-back clauses impermissibly extend the duration of a patent, had nothing to do with grant-back clauses. The patent license agreement in Perbal contained no provision requiring the licensee to grant back to the licensor the former's improvement patents. Rather, the patentee in Perbal granted to the licensee the exclusive right to use not only his original patent but also his subsequently acquired

times until the present Petition argued that the assignment of the Huffstutler patent would be improper only if the claims of the Kaster patent did not cover the Huffstutler patent. See Appellant's Brief at 32-33.

5/ (Footnote Continued)

improvement patents, and the parties agreed that the license would continue until the expiration of the last acquired improvement patent. The trial court construed the agreement further to require the payment of royalties on net sales of all of the licensee's inventions until the expiration of the last acquired improvement patent, even though during that time some of the licensee's inventions employed only expired patents. The Missouri Supreme Court reversed the trial court finding that although the licensing agreement did not expire until the end of the term of the last-to-expire improvement patent, the obligation to pay a royalty on the sale of inventions employing the improvement patents terminated upon the expiration of each improvement patent. Id. 689-90. It was within this context, and not that of grant-back clauses as Medical would have this Court believe, that the Missouri Supreme Court said that a patent license exacting royalties on expired improvement patents would constitute patent misuse. Id. at 690.

Nevertheless, Medical now argues that Brulotte v. Thys Co., 379 U.S. 29 (1964), is in direct conflict with the Court of Appeals' decision on the grant-back issue.[6/] Pet. at 14. Brulotte, written by Justice Douglas, who was also the author of Trans-Wrap, held

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6/ Medical also claims that the Supreme Court's decisions in Blonder-Tongue Labs. v. University Foundation, 402 U.S. 313 (1971), and Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969), call into question the continuing validity of Trans-Wrap. Pet. at 20. Regarding Blonder-Tongue, that claim is incomprehensible for that case concerned the use of collateral estoppel in patent infringement suits and in no place considered grant-back clauses in particular or even patent misuse in general. Regarding Zenith Radio, inasmuch as Medical in its grant-back argument faults the Minnesota Court of Appeals for failure to address "the duration issue as it relates to improvements," Pet. at 19, its reliance on Zenith Radio is misplaced. Zenith Radio held that conditioning the grant of a patent license upon the payment of royalties on products not covered by the patent is patent misuse. Thus, Zenith Radio focused on a patent licensing provision that expanded the scope, not the duration, of the licensed patent.

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that a license agreement that required licensees to continue to pay royalties after all of the licensed patents that were the subject of the license agreement had expired was patent misuse. Id. at 32. Brulotte thus condemns the situation in which royalties are collected in the absence of a valid patent. In contrast, with a grant-back clause, as Trans-Wrap allows, the licensor uses the economic power of one patent to acquire another patent covered by the first patent. 329 U.S. at 644.

Moreover, the patent law policies undermined by the royalty provisions in Brulotte are not disserved by grant-back clauses such as the ones found in Trans-Wrap or the instant case. Congress intended that during the term of a patent the public be denied access to no more than the use of the patented invention and that, upon expiration of

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the patent, those teachings and its use pass into the public domain. Scott Paper Co. v. Marcalus Manufacturing Co., 326 U.S. 249, 255 (1945). Contrary to Congressional policy, the royalty provision in Brulotte, by extending the patentee's monopoly beyond the expiration of any patent, delayed the public's access to use patent teachings. Here, the license agreement and any and all royalty obligations under the license agreement end on the expiration date of the Kaster patent under the decision of the Minnesota Court of Appeals. Pet. App. at A-54.

By contrast, grant-back clauses do not extend the duration of the patent; they merely require assignment of improvement patents to the licensor. As for the assigned patent, only its ownership, and not its duration, is affected by the assignment. As Justice

Douglas said in Trans-Wrap "the effect on the public interest would seem to be the same whether the licensee or the licensor owns the improvement patents." 329 U.S. at 646.

B. The Court of Appeals' Determination that Medical Failed to Prove that the Total-Sales Provision Was Conditioned Is Not in Conflict with Decisions of this Court.

Medical also criticizes the Court of Appeals' application of Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100 (1969), to the facts of this case. Medical's criticism is unsupported. Zenith Radio held "that conditioning the grant of a patent license upon payment of royalties on products which do not use the teaching of the patent does amount to patent misuse." 395 U.S. at 135. In this case, the jury found that the Kaster patent

covered all three heart valves manufactured and sold by Medical. Pet. App. at A-47. Medical has not disputed the sufficiency of this finding. Id. A total-sales royalty provision cannot constitute patent misuse under Zenith Radio where, as here, it applies only to products covered by the patent.

Further, Medical's only basis for review of this issue by this Court is its argument that the evidence was sufficient to support a finding of "conditioning" amounting to patent misuse. Pet. at 26-30. Such an argument does not fall within the considerations governing review on certiorari in Rule 17 of the Rules of the Supreme Court. Moreover, the evidence amply supports a finding that the licensing agreement was not conditioned upon Medical's acceptance of the total-sales royalty provision.

Medical affirmatively requested a license containing the terms it now attacks. T.234-36. Medical's lawyer prepared the first draft, based on a prior license with its predecessor, containing the language to which it now objects. T.272-76, 829-34. Medical, without solicitation from the University, assured the University that its sole business was to be the manufacture and sale of valves developed at the University. There was simply no evidence at the trial to support a finding of conditioning, and Medical did not even ask the jury or the trial judge to make a finding on this issue.

The facts of this case are in sharp contrast to those cases cited by Medical in which patent misuse has been found. In Glen Mfg., Inc. v. Perfect Fit Industries, Inc., 324 F. Supp. 1133 (S.D.N.Y. 1971), for example, a license

agreement requiring payment of royalties regardless of patent coverage was held to be misuse. There, the licensor had a firm policy of granting licenses only on the condition that the licensee pay royalties on all sales regardless of patent coverage. No such policy existed here. The licensor in Glen solicited the license itself, offering only one form of license agreement. By contrast, Marshal Kriesel, the president of Medical, approached the University for a license to make the L-K valve on the same terms as the prior license to Medical's predecessor. T. 234-36. Both Medical and the University were involved in drafting the terms of the license agreement. See Exh. 46; T.272-76, 829-34.

The terms of the license agreement were open to negotiation again in 1975, when Medical sought an amendment to the agreement. See Exhs. 71, 269,

2338; T. 174-75, 386-87, 399-400. Whereas the license agreement in Glen was determined not to be for the "mutual convenience of the licensor and licensee," the provision in the amendment requiring payment of royalties on the Medical valves was mutually agreed upon after much debate over the coverage issue.7/

Likewise, in Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648 (D.S.C. 1975), aff'd in part and rev'd in

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7/ The initial license agreement between Glen and a manufacturer of toilet tank covers was upheld because, as part of an agreement settling an infringement suit, the parties had decided that it was more convenient to pay royalties on each toilet tank cover manufactured than to dispute whether each product was covered by the licensed patents. See Glen Mfg., Inc. v. Fulton Industries, Inc., 301 F. Supp. 649 (N.D. Ill. 1968). It was only after a pattern of such license agreements was established that the courts found these license agreements to be patent misuse.

part, 594 F.2d 979 (4th Cir. 1979), cert. denied sub nom. Ateliers Roannois de Constructions Textiles v. Duplan, 444 U.S. 1015 (1980), the court found "overwhelming evidence that the demands by purchasers of the ARCT machines for something less than the license package offered would have been rejected by [the licensor]." Id. at 703. Medical presented no such evidence here. Moreover, the Duplan court found that "when the totality of defendants' conduct in respect of their licensing program is considered they are seen to have engaged in deceptive business practices which add up to misuse of the patents which has not been purged." Id. at 695. Medical has never made, let alone proved, any allegations of deceptive business practices on the part of the University.[8/]

8/ The remaining cases on which Medical relies are likewise distinguishable.

In this case there was no evidence to support a finding of conditioning.

C. The Court of Appeals' Determination that the University Was Not Precluded from Arguing that the Kaster Patent Covered the Medical Valve Did Not Violate the Supremacy Clause.

Medical urged at trial that the University was precluded from arguing that the Kaster patent covered the valves manufactured by Medical. To make this argument, Medical relied upon Washington Scientific Industries, Inc., et al. v.

8/ (Footnote Continued)

See, Reich v. Reed Tool Co., 582 S.W.2d 549, 555 (Tex. Civ. App. 1979), cert. denied, 446 U.S. 946 (1980) (upheld trial court's conclusion of illegal conditioning where, unlike the instant case, jury found on a specially submitted issue that the licensor would not have entered into the agreement sued upon if [the total-sales provision] had not been included"); Chandler v. Stern Dental

Shiley Laboratories, Inc., 187 U.S.P.Q. 236 (C.D. Cal. 1975). Shiley held that the Kaster patent was valid but not infringed by the Bjork-Shiley heart valve.

Medical argues that two findings from the Shiley opinion -- that the Bjork-Shiley valving member does not "close in the sense of the patent" and that the Bjork-Shiley valve lacks pivotal movement in the sense of the patent -- preclude the University from establishing that the Kaster patent covers the Medical valves. Medical makes this argument

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8/ (Footnote Continued)

Laboratory Company, 335 F. Supp. 580 (S.D. Texas 1971) (court inferred, based on inclusion of grant-back clause, that grant of patent license was conditioned on inclusion of total-sales royalty provision; this district court opinion is contrary to Trans-Wrap, which held that grant-back clauses are not per se illegal).

despite the fact that it argued in Shiley that the Kaster patent covered the L-K valve and the court in Shiley expressly reserved any finding on that question. Id. at 242.

The Minnesota Court of Appeals properly rejected Medical's argument, Pet. App. at A-26 - A-33, because Medical sought to preclude the University on the basis of statements from Shiley that were neither essential to the judgment nor identical with the coverage issues in this litigation. The Opinion of the Minnesota Court of Appeals is a sound application of the principles of collateral estoppel, under both federal patent and state law.

1. Collateral estoppel does not apply because the language upon which Medical relies was not essential to the holding.

Under both Minnesota and federal patent law, an issue must not only be

actually litigated but essential to the previous judgment before collateral estoppel applies. Roseberg v. Steen, 363 N.W.2d 102, 105 (Minn. App. 1985); A. B. Dick v. Burroughs Corp., 713 F.2d 700, 704 (Fed. Cir. 1983); Studiengesellschaft kohle mbH v. Eastman Kodak Co., 616 F.2d 1315, 1322 (5th Cir. 1980). Indeed, review of A. B. Dick and Eastman Kodak establish that federal courts stringently apply the rule that a finding was essential to the prior judgment in applying collateral estoppel to patent infringement or coverage cases.

In A. B. Dick, for example, defendant Burroughs sought to preclude plaintiff from pursuing its claim that Burroughs' device (an ink-jet dot-matrix alphanumeric printer) infringed its patent. In earlier federal litigation, the District Court for the Southern District of Ohio had determined that a

Mead ink-jet printer did not infr nge A. B. Dick's patent. The Ohio Court had stated in its opinion that "the [A. B. Dick] patent is limited in scope to oscillographic recording." 713 F.2d at 702. Because the Burroughs' device was not an oscillographic recorder, Burroughs claimed that A. B. Dick was collaterally estopped from pursuing its infringement action.

The Federal Circuit rejected Burrough's argument, finding that the statement from the Ohio court upon which Burroughs sought to rely was not essential to the final judgment on infringement. The Court stressed that an infringement action does not determine the scope of a patent in the abstract, but only to the extent necessary to resolve the particular infringement issue with which the court is presented. The court concluded:

> [W]e hold that judicial statements regarding the scope of patent claims are entitled to collateral estoppel effect in a subsequent infringement suit only to the extent that determination of scope was essential to a final judgment on the question of validity or infringement; further that such statements should be narrowly construed.

700 F.2d at 704. See also Eastman Kodak, 616 F.2d at 1331-33 (Fifth Circuit refused to apply collateral estoppel effect to judicial statements from prior litigation that patent was limited to polymerization of ethylene, where that language was not necessary to prior decision and issues in prior and subsequent infringement actions were not identical.)

The Shiley opinion is discursive and rambling, presenting exactly the possibility of unfair and overly broad preclusion based on non-essential findings that concerned the Federal

Circuit in A. B. Dick and the Fifth Circuit in Eastman Kodak. Review of the opinion, such as that conducted by the Minnesota Court of Appeals, reveals that the finding that was essential to the determination of non-infringement was that the Bjork-Shiley valve lacked "legs," an element of the Kaster patent.[9/] The Shiley Opinion calls this the "most significant" difference between the structures described in the Kaster claims and the Bjork-Shiley valve. Further it is the only structure referenced by the Court in its conclusion of law:

9/ The 'legs' in the Kaster patent are pairs of projections from the base, between which the disc pivots open and closed. The Shiley valve has curved rods about which the disc "wobbles." The Shiley court rejected plaintiffs' argument that these rods should be viewed as legs with a connecting support rod. Medical has never alleged that its valves have connecting rods similar to the Bjork-Shiley valve.

> Since the evidence clearly shows that the structure and the operating relationship of the support rods with the disc in the accused device is different in principle from the legs and peripheral portion relationship defined in the limitations introduced into the claims to obtain allowance, the only manner in which infringement could be found would be to ignore these limitations and this is not permitted.

Shiley, 187 U.S.P.Q. at 243.

In the Shiley opinion neither the closing of the disc nor the pivotal movement findings were essential to the court's determination. Medical seeks preclusion based on these non-essential findings, and the Minnesota Court of Appeals properly rejected its collateral estoppel argument.

2. Collateral estoppel does not apply because the infringement issues of the Shiley litigation lack identity with the coverage issues of this litigation.

The most elemental principle of collateral estoppel is that the

previously determined issue must be identical to that which a party seeks to preclude. Roseberg v. Steen, 363 N.W.2d at 106; Eastman Kodak, 616 F.2d at 1332. As noted above, the Shiley litigation determined that claims 11 and 17 of the Kaster patent did not cover the Bjork-Shiley Valve; the instant litigation determined that Claims 1, 11, and 17 of the Kaster patent do cover the Medical valves. There is, therefore, no identity between the coverage issues of the instant case and the issues of Shiley.

The language from Shiley that Medical claims disposes of the coverage issue in this case is the following:

> The valving member in the accused valve does not close the passage in the sense of the patent. Reverse flow is not blocked, but rather a controlled amount of fluid continues to circulate through the valve through a space between the valving members and the valves of the passage.
>
> * * *

> The accused device does not involve pivotal movement in the sense in which such term is employed in the patent and its claims. Instead, the action in opening is more accurately described as wobble, and the closing operation involves a rocking motion.

Shiley, 187 U.S.P.Q. at 241. These statements, even if essential to the judgment, could preclude the issue of the Kaster patent's coverage of Medical's valves only if these valves differ from the Kaster patent in the same ways as does the Bjork-Shiley valve. Overhead Door Corp. v. Whiting Roll-Up Door Mfg. Corp., 215 U.S.P.Q. 428, 433, 435 (W.D.N.Y. 1981); and Overhead Door Corp. v. Whiting Roll-Up Door Mfg. Corp., 225 U.S.P.Q. 1189, 1191 (W.D.N.Y. 1984).

In Overhead Door, the case upon which Medical chiefly relies for its collateral estoppel argument, the Court refused to permit another court's prior finding that a patent applied to a

locking device actuated solely by gravity to preclude a determination of whether locking devices actuated by a spring mechanism, as well as by gravity, infringed the patent. The Overhead Door court based its denial of collateral estoppel on the fact that the accused device in the prior litigation, which did not use gravity at all, differed from the currently accused device, which used gravity in part. Therefore, as the two accused infringing devices did not differ from the patent in the same way, the issues presented by the two cases were not identical. 225 U.S.P.Q. at 1191.

The Bjork-Shiley valve and the Medical valves are strikingly different types of valves. A comparison between Medical's valves and the Bjork-Shiley valve with respect to the valve member closing and pivot features demonstrates that the Medical valves cannot be

distinguished from the Kaster patent in the same way as the Bjork-Shiley valve was distinguished by the Shiley court. The valving member in the Bjork-Shiley valve, which corresponds to the disc in the Kaster patent and Medical valves, comes to rest level inside the housing ring when it is in a closed position. The valving member is spaced from the ring in such a way that blood is allowed to flow through the valve in a closed position. Exh. 1405A. In the valve disclosed in the Kaster patent, the disc comes to rest on pivot stops or seats on the side of the housing ring. The discs in the Medical valves close in the same way as the disc in the Kaster valve and block the flow of blood in the same way. See Exh. 1405A; T.2333-43. Because the valving members in Medical's heart valves do not operate in the same way as the valving member in the Bjork-Shiley valve,

Shiley's statements regarding blocking versus controlled flow of blood are not binding. Overhead Door, 215 U.S.P.Q. at 433.

Shiley's finding with respect to the pivot movement of the Kaster valve has no binding effect either. The Medical valves pivot in an entirely different manner than the Bjork-Shiley valve. The Bjork-Shiley valve has a curved rod below the valving member and another above the valving member. See Exh. 1405A. The support rods do not cause the valving member to open and close in a predefined path. Both the Kaster patent and the Medical valves have pairs of pivot projections on either side of the base and retaining shields that together define the pivotal motion and cause the disc to pivot in the same pattern on opening and closing. This is what the Kaster patent means by an

"unaltered pivotal chord axis." See Exh. 324A, col. 4, l. 47; T. 4029. Because the Medical valves are not distinguishable from the Kaster patent in the same way as the Shiley valve, the Shiley court's findings with respect to the pivotal movement are not binding.

In sum, Medical's Petition states that Shiley narrowly construed the "scope" of the Kaster patent while the jury in this case "broadly" construed it, and that the purported contradiction offends the Supremacy Clause. The suggestion that the approach or tone of a case is binding is ridiculous. The suggestion that the Minnesota Court has flaunted the U.S. Constitution by its careful analysis of what was essential to the Shiley judgment cannot withstand a reading of A. B. Dick, which urges courts to construe narrowly prior judicial statements on patent scope, 700 F.2d at

704, and Eastman Kodak, which similarly cautions against "automatic" or "broad" application of collateral estoppel in patent cases, 616 F.2d at 1332. Federal courts interpreting federal patent law, realizing that an infringement action only properly determines the "scope" of a patent to the extent necessary to determine whether the accused device in question is or is not infringing the patent, have not embraced Medical's position. See also, Plastic Container Corp. v. Continental Plastics of Omaha, Inc., 607 F.2d 885, 894 (10th Cir. 1979), cert. denied, 444 U.S. 1018 (1980) ("(T)he public interest in upholding valid patents . . . outweighs the public interest underlying collateral estoppel where the issue or issues in each action are not substantially identical.")

CONCLUSION

For the foregoing reasons, the Petition for a Writ of Certiorari to the Minnesota Court of Appeals should be denied.

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Respectfully submitted,

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